



Insurance Institute of Michigan

TESTIMONY OF PETER A. KUHNMUENCH, EXECUTIVE DIRECTOR
INSURANCE INSTITUTE OF MICHIGAN
BEFORE THE HOUSE COMMITTEE ON INSURANCE
APRIL 15, 2010

GOOD MORNING AND THANK YOU FOR THE OPPORTUNITY TO COMMENT TODAY ON
SENATE BILL NO. 1174

VERY SIMPLY, THE INSURANCE INSTITUTE OF MICHIGAN SUPPORTS SENATE BILL NO.
1174 AS BEFORE THE COMMITTEE TODAY. AS YOU KNOW, THIS LEGISLATION WOULD
PROVIDE FOR A TWO-THIRDS APPROVAL OF THE OUTSTANDING VOTING SECURITIES
IN CONJUNCTION WITH ANY “HOSTILE” ACQUISITION OF A DOMESTIC PROPERTY AND
CASUALTY INSURER IN MICHIGAN EMPLOYING 200 OR FEWER INDIVIDUALS.

A “HOSTILE” ACQUISITION IN THIS PROPOSAL CONSTITUTES AN ACQUISITION WHICH
IS OPPOSED BY A MAJORITY OF THE DOMESTIC INSURER’S BOARD OF DIRECTORS.

WHILE SOME MAY CRITICIZE THIS LEGISLATION AS INTERFERING IN THE OPEN
MARKET OF MERGERS AND ACQUISITIONS, LET ME ASK YOU TO CONSIDER THIS.....

BECAUSE OF THE NATURE OF INSURANCE PRODUCTS, (WHICH BASICALLY
CONSTITUTES A FUTURE PROMISE OF PAYMENT), INSURANCE COMPANIES ARE
SUBJECT TO VERY HIGH STANDARDS OF SAFETY AND SOLVENCY. THIS CONCERN
FOR THE FINANCIAL INTEGRITY OF INSURANCE COMPANIES IS ENHANCED BY THE
PROPOSED LEGISLATION, AS IT REQUIRES A SLIGHTLY HIGHER STANDARD OF

CONSENSUS AMONG STOCKHOLDERS IN THOSE RARE CIRCUMSTANCES WHERE A PROPOSED ACQUISITION IS OPPOSED BY THE BOARD OF DIRECTORS.

INSURANCE COMPANY ACQUISITIONS ARE DIFFERENT AND THEY DESERVE A FAIR AND DELIBERATE PROCESS TO INSURE THAT THE INTERESTS OF BOTH STOCKHOLDERS AND POLICYHOLDERS ARE PROTECTED.

NOW, YOU HAVE HEARD ME TESTIFY BEFORE THAT MICHIGAN DOMESTIC INSURANCE COMPANIES ARE GREAT CORPORATE PARTNERS.

THEY ARE NON-POLLUTING INDUSTRIES;

THEY ARE KNOWLEDGE-BASED;

THEY PROVIDE ABOVE AVERAGE WAGES;

THEY ARE GOOD CORPORATE CITIZENS WITHIN THEIR COMMUNITIES, AND;

THEY ARE JUST THE TYPE OF INDUSTRY MICHIGAN NEEDS TO HELP DIVERSIFY ITS ECONOMY.

THE BOTTOM LINE IS WE SHOULD WANT TO GROW THIS TYPE OF DOMESTIC INDUSTRY HERE IN MICHIGAN.

HOSTILE TAKE-OVER OFFERS OFTEN INVOLVE A SIGNIFICANT DISRUPTION OF THE ACQUIRED ORGANIZATION'S LEADERSHIP AND MANAGEMENT STRUCTURE. FREQUENTLY THIS INCLUDES THE CONSOLIDATION OF WHAT ARE CONSIDERED AS DUPLICATIVE MANAGEMENT POSITIONS, AND MOST OFTEN THESE REDUCTIONS ARE AT THE EXPENSE OF THE ACQUIRED ORGANIZATION'S IN-STATE EMPLOYEES.

IN FACT, THESE SAVINGS ARE FREQUENTLY PART OF THE JUSTIFICATION AND RATIONALE FOR THE PROPOSED ACQUISITION.

WHAT THIS MEANS IS, THAT IT IS VERY LIKELY THAT A SMALLER, ACQUIRED MICHIGAN INSURER WILL SEE LOCAL JOB LOSS -- TO THE ADVANTAGE OF THE OUT-OF-STATE ACQUIRING ENTITY, BUT CERTAINLY NOT TO BENEFIT OF THE MICHIGAN-BASED COMPANY OR TO THE STATE OF MICHIGAN.

CERTAINLY RETAINING AND GROWING JOBS HERE IN MICHIGAN SHOULD BE THE #1 PRIORITY OF THE MICHIGAN LEGISLATURE. THIS LEGISLATION HELPS INSURE THAT CORPORATE ACQUISITIONS OF SMALLER DOMESTIC INSURERS ARE CONDUCTED IN A DELIBERATE AND FAIR PROCESS THAT IS SUPPORTIVE OF THIS PRIORITY.

INSURANCE COMPANY ACQUISITIONS BY OUT-OF-STATE INTERESTS ALSO PRESENT THE OPPORTUNITY TO EXPORT MICHIGAN JOBS TO VIRTUALLY ANYWHERE IN THE WORLD. MUCH OF THE TECHNICAL AND SERVICING FUNCTIONS OF AN INSURER CAN BE PERFORMED VIRTUALLY ANYWHERE IN THE WORLD. AND WITHOUT THE LOYALTY OF A MICHIGAN-BASED COMPANY, SHIPPING JOBS OUT-OF-STATE IS LIKELY TO OCCUR.

FINALLY, WHOLESALE REDOMESTICATION IS ALSO A DISTINCT POSSIBILITY. ONCE CONTROLLED BY AN OUT-OF-STATE INTEREST, THE REDOMESTICATION TO A STATE MORE FAVORABLY POSITIONED FOR AN INSURER MAY PROVIDE FURTHER RATIONALE AND INCENTIVE TO MOVE THESE JOBS OUT OF MICHIGAN. BELIEVE ME, THERE ARE MANY STATES WITH MORE ATTRACTIVE PREMIUM TAX RATES AND A LESS HOSTILE REGULATORY AND LEGISLATIVE ENVIRONMENT THAN IN MICHIGAN.

MEANWHILE, IN MICHIGAN WE PROVIDE EXTENSIVE INCENTIVES TO VARIOUS BUSINESSES AND BUSINESS CATEGORIES TO ATTRACT NEW JOBS AND TO INDUCE EXISTING EMPLOYERS TO KEEP JOBS HERE IN MICHIGAN. THE PROPOSAL BEFORE YOU DOES NOT ASK FOR ANY TAX INCENTIVES, IT DOES NOT ASK FOR ANY PROPERTY TAX CREDITS, IT DOES NOT ASK FOR ANY TRAINING FUNDS.

THIS BILL SIMPLY ASKS FOR THE OPPORTUNITY FOR A MICHIGAN COMPANY TO REMAIN A MICHIGAN COMPANY, IF THAT IS CLEARLY THE DESIRE OF ITS OWNERS.

THANK YOU FOR THE OPPORTUNITY TO SHARE THESE VIEWS WITH YOU TODAY. AND I WOULD BE HAPPY TO TRY AND ANSWER ANY QUESTIONS THE COMMITTEE MAY HAVE.